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ECONOMIC REVIEW | NOVEMBER 2022 BNM MPC

OPR Raised to 2.75%, Remain Below Pre-Pandemic Levels

- *Another 25bps rate hike. BNM raised the Overnight Policy Rate (OPR), from 2.50% to 2.75%, in its final Monetary Policy Meeting of 2022, in-line with market expectations.*
- *BNM hinted strong & robust 3QCY22 GDP Growth. Underpinned by improvements in labour market conditions and income prospects, robust domestic demand continues to fuel local economic activity in the third quarter of this year. BNM reiterate inflation to peak in 3QCY22. On the price developments, BNM views inflation to be manageable as 9MCY22 average inflation rate remained within the BNM's 2.2-3.2% inflation forecast range. BNM foresee core inflation to average closer to upper range of +2~3% for this year.*
- *Expect next rate hike in January 2023. Moving into 2023, we believe the current focus of BNM's monetary policy setting is to ensure a sustainable recovery of Malaysia's economy. With the rising core inflation trend and stronger-than-expected domestic demand, we expect the central bank to front-load its monetary bullets to pre-pandemic levels at 3.00% by Jan-23.*

Another 25bps rate hike. BNM raised the Overnight Policy Rate (OPR), from 2.50% to 2.75%, in its final Monetary Policy Meeting of 2022, in-line with market expectations. In the Monetary Policy Statement, BNM highlighted that the global economy continues to be pressured by cost inflation, tighter global financial conditions, and strict containment measures in China. Many countries to continue embarking contractionary monetary policy as to manage inflationary pressure particularly driven by strong demand and tight labour market. The central bank also highlighted global growth to face challenges from tightening monetary policy in many economies, elevated inflationary pressure in developed markets and domestic challenges in China. We view the decision to raise OPR by another +25bps is timely, taking the advantage of the stronger-than-expected macroeconomic performances.

BNM hinted strong & robust 3QCY22 GDP Growth. Underpinned by improvements in labour market conditions and income prospects, robust domestic demand continues to fuel local economic activity in the third quarter of this year. Reopenning of international borders since Apr-22 has encourage higher tourists arrivals. According to Malaysia Airport Holdings Berhad (MAHB), international passengers to total passengers ratio surged from 10.3% in Dec-21 to 36.2% in Sep-22 (Ave. 2019: 50.6%). BNM also highlighted investment prospects to be supported by the realisation of multi-year and infra projects. On external trade, cloudier outlook ahead amid softening global growth.

BNM reiterate inflation to peak in 3QCY22. On the price developments, BNM views inflation to be manageable as 9MCY22 average inflation rate remained within the BNM's 2.2-3.2% inflation forecast range. BNM foresee core inflation to average closer to upper range of +2~3% for this year. The central bank expects core inflation to ease off in coming months following high-cost pressures. Looking at 2023, BNM view both headline and core inflation to stay elevated amid both demand and cost pressures, as well as any changes to domestic

policy measures. We are in the same tune with BNM especially the stance of post-GE15 government on fuel subsidy policy will determine to direction of Malaysia's inflation outlook for next year.

Ringgit strenghened againsts EUR, GBP and JPY. On Ringgit concerns, we opine the depreciation against USD is purely due to the strong appreciation of the US currency as the Fed is expected to continue opting for an aggressive tightening of monetary policy. Comparing to other major currencies, MYR performed better than EUR, GBP, JPY, KRW and AUD. On yearly basis, 10MCY22 average depreciation of USDMYR at -5.5%yoy whereas EURMYR at +6.7%yoy, GBRMYR at +5.2%yoy, JPYMYR at +12.4%yoy, KRWMYR at +6.6%yoy and AUDMYR at +2.2%yoy.

Expect next rate hike in January 2023. Moving into 2023, we believe the current focus of BNM's monetary policy setting is to ensure a sustainable recovery of Malaysia's economy. With the rising core inflation trend and stronger-than-expected domestic demand, we expect the central bank to front-load its monetary bullets to pre-pandemic levels at 3.00% by Jan-23. However, the decision will be subjected to the stability of economic growth, the pace of price increases and further improvement in macroeconomic conditions, particularly a continued recovery in the labour market and growing domestic demand. From a medium-term perspective, the policy rate normalisation is needed to avert risks that could destabilize the future economic outlook such as persistently high inflation and a further rise in household indebtedness.

Table 1: Central Bank Policy Rate (%) for Selected Countries

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Malaysia	1.75	1.75	2.00	2.00	2.25	2.25	2.50	2.50	2.75
Indonesia	3.50	3.50	3.50	3.50	3.50	3.75	3.75	4.25	4.75
Philippines	2.00	2.00	2.25	2.50	3.25	3.75	4.25	4.25	4.25
Thailand	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.00	1.00
Vietnam	4.00	4.00	4.00	4.00	4.00	4.00	5.00	6.00	6.00
India	4.00	4.00	4.40	4.90	4.90	5.40	5.90	5.90	5.90
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro area	0.00	0.00	0.00	0.00	0.50	0.50	1.25	1.25	2.00
UK	0.75	0.75	1.00	1.25	1.25	1.75	2.25	2.25	2.25
US	0.25-0.50	0.25-0.50	0.75-1.00	1.50-1.75	2.25-2.50	2.25-2.50	3.00-3.25	3.00-3.25	3.75-4.00

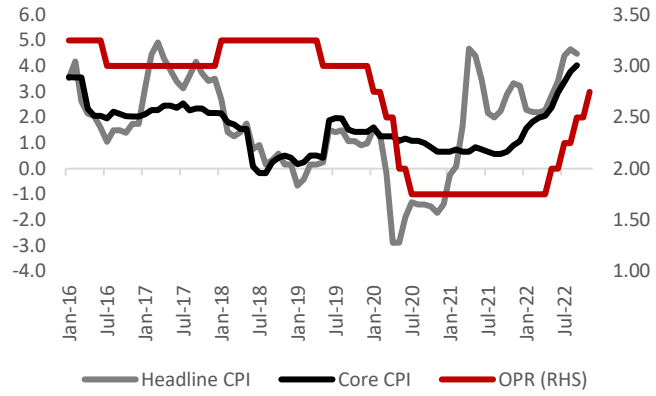
Source: CEIC, MIDFR

Table 2: Monetary Policy Meeting Schedule for 2022

	Date
1st Meeting	19 – 20 January 2022
2nd Meeting	2 – 3 March 2022
3rd Meeting	10 – 11 May 2022
4th Meeting	5 – 6 July 2022
5th Meeting	7 – 8 September 2022
6th Meeting	2 – 3 November 2022

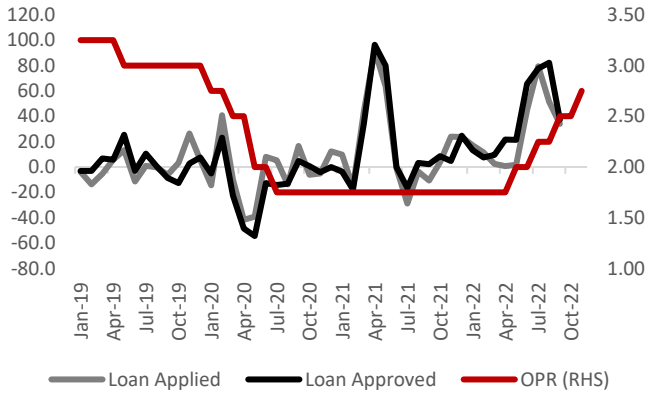
Source: BNM, MIDFR

Chart 1: Monetary Policy (%) vs Inflation (YoY%)



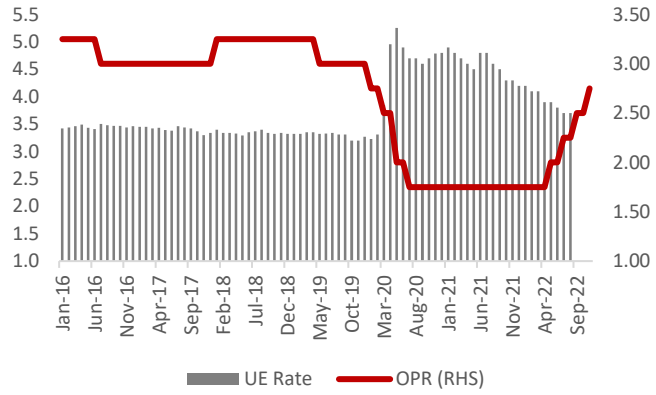
Source: MACROBOND, MIDFR

Chart 2: OPR (%) vs Loan Growth (YoY%)



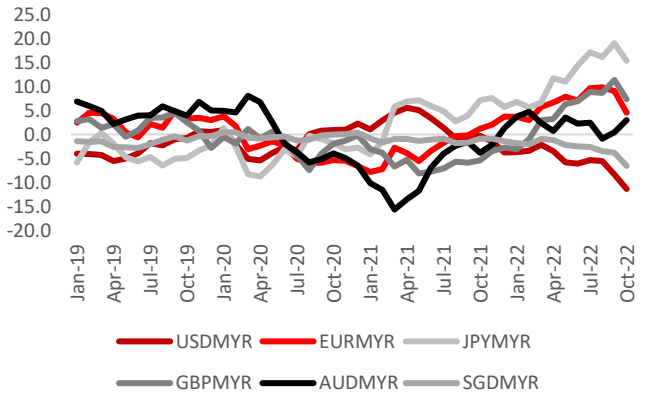
Source: MACROBOND, MIDFR

Chart 3: OPR (%) vs. Unemployment Rate (%)



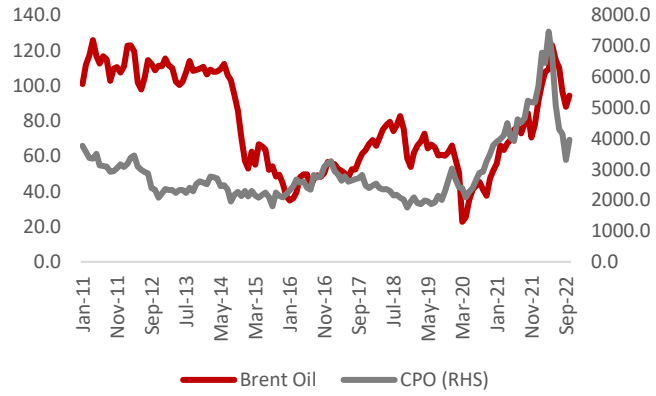
Source: MACROBOND, MIDFR

Chart 4: MYR against selected currencies (YoY%)



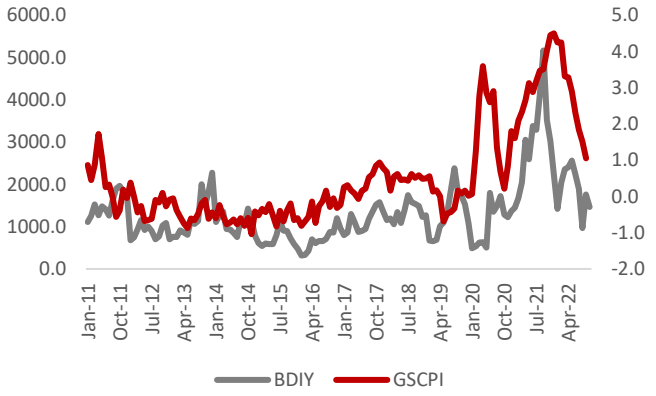
Source: MACROBOND, MIDFR

Chart 5: Brent Oil (USDpbd) vs. CPO (RM per tonne)



Source: BLOOMBERG, MIDFR

Chart 6: Global supply chain pressure cooling down



Source: BLOOMBERG, MIDFR

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